



**Office of Audit Services**  
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December 9, 2005

#### **AGENDA ITEM 4**

#### **TO: MEMBERS OF THE FINANCE COMMITTEE**

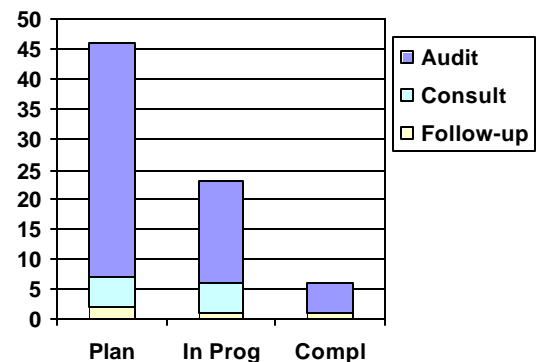
- I. SUBJECT:** Quarterly Status Report
- II. PROGRAM:** Audit Services
- III. RECOMMENDATION:** Information only
- IV. SUMMARY:**

In accordance with the Finance Committee's Audit Resolution Policy and Procedures, the Office of Audit Services presents its Quarterly Status Report of audit activity. The following provides the status of audits and special projects as of September 30, 2005.

#### **1. Status of projects and activities in the Fiscal Year 2005 / 2006 Board approved annual Audit Plan**

- A. Internal Audits – Internal audit projects and consulting assignments focus on compliance, and the effectiveness and efficiency of CalPERS operations, systems, policies, and procedures. Detail on these projects is provided on Attachment 1A.

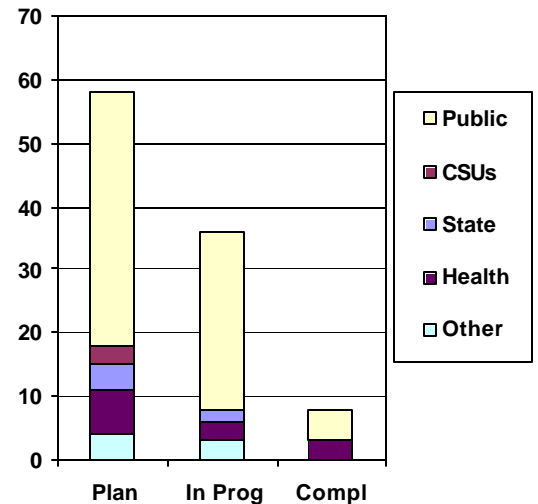
2005/06 Board Approved Audit Plan	Plan	In Progress	Complete
Audit Projects	39	17	5 <sup>A</sup>
Consulting Projects	5	5	0
Audit Follow-up	2	1	1



A – Includes projects that started in prior fiscal year.

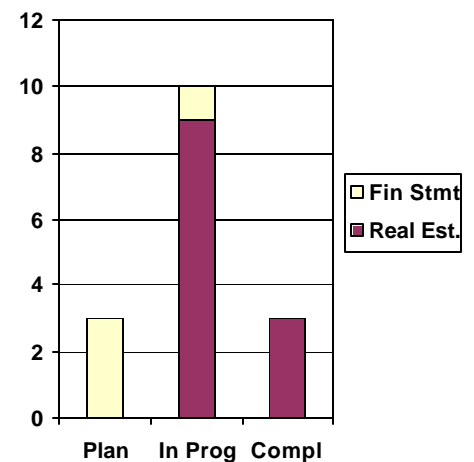
B. Field Audits and Reviews– Field audits and reviews include compliance reviews of employer entities belonging to the System, audits of Health Maintenance Organizations contracting with the System, compliance audits of health care third-party administrators, and audits of external providers of investment-related services. Detail on these projects is provided on Attachment 1B.

2005/06 Board Approved Audit Plan	Plan	In Progress	Complete
Public Agency Reviews	40	28	5 <sup>A</sup>
California State Universities Reviews	3	0	0
State Agency Reviews	4	2	0
Health Plan Audits	7	3	3 <sup>A</sup>
Other Field Audits	4	3	0



C. Contract Audits – Contract audits include audit work performed by external auditors. The number of real estate compliance audits is determined over the course of the fiscal year. Detail on these projects is provided on Attachment 1C.

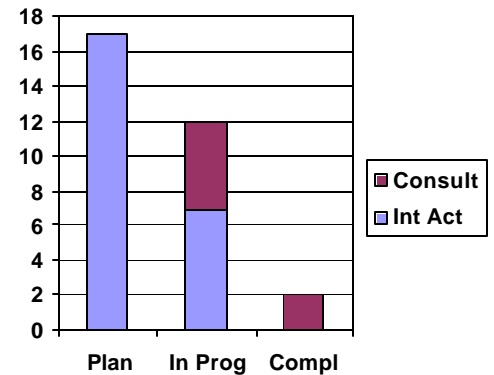
2005/06 Board Approved Contract Auditor	Plan	In Progress	Complete
Financial Statement Audit Deloitte & Touche	3	1	0
Real Estate Compliance Audits - Conrad & Assoc.	As requested	9	3



A- Includes projects started in prior fiscal year

D. Special Projects - In addition to the specific projects in the approved Audit Plan, during the year the Office of Audit Services responds to subsequent requests from the Board of Administration, Executive Management, and program divisions for audit and consulting projects. The approved Audit Plan includes an allocation of hours for these projects. Detail on these projects is provided in Attachment 1D.

Audit / Consulting Projects	Plan	In Progress	Complete
Consulting Assignments/ Special Projects	As requested	5	2
OFAS Internal Activities	17	7	0



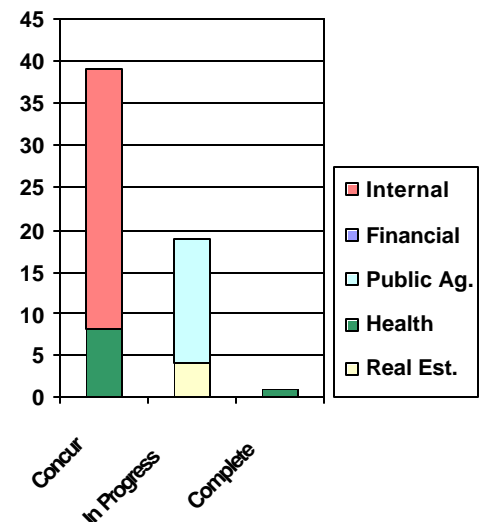
## 2. Findings / issues resulting from auditing work

A status of *Concur* indicates management has agreed with the finding and plans corrective action. *In Progress* indicates management is taking corrective action. *Complete* status indicates satisfactory resolution of the finding.

*Unresolved* status indicates management does not agree with the finding or recommendation or has not taken adequate action; in such a case, the finding is referred to executive management for resolution.

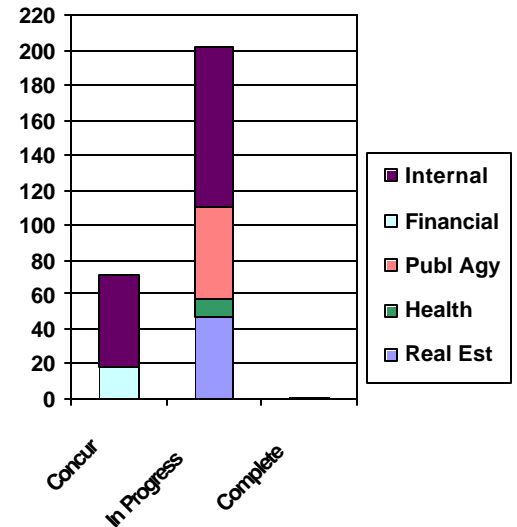
A. Findings / issues resulting from current year projects.

Activity	Concur	In Progress	Complete	Unresolved
Internal Audits	31	0	0	0
Financial/External Audits	0	0	0	0
Public Agency Reviews	0	15	0	0
Health Plan Audits	8	0	1	0
Real Estate Audits	0	4	0	0



B. Findings / issues resulting from prior years' projects.

Activity	Concur	In Progress	Complete	Unresolved
Internal Audits	54	91	0	0
Financial/External Audits	18	0	0	0
Public Agency Reviews	0	54	0	0
Health Plan Audits	0	10	1	0
Real Estate Audits	0	47	0	0



3. Findings / Issues

Public Contracting Agencies

During the first quarter of Fiscal Year 2005/06, we completed 5 reviews of public contracting agencies. The most frequently reported issues were incorrect reporting of compensation, not enrolling eligible part-time employees, and payroll reporting errors. The following table is a summary of the findings included in the reports issued during the first quarter of Fiscal Year 2005/06.

Type of Finding – FY 2005/06	Number of Findings
Compensation	4
Enrollment	4
Independent contractors	0
Reinstatement of retired annuitants	2
Payroll reporting errors	4
Unused sick leave	1
Member misclassification	0

### Internal Audits and Special Projects

During the first quarter of Fiscal Year 2005/06, we completed five internal audits focusing on enterprise risk to the organization. The areas of primary emphasis included financial accountability, contracting and purchasing activities, Medicare transfer eligibility, and key information technology controls. Reported issues included controls over the building manager's cash receipts and disbursements and bank reconciliations, controls over contracting and purchasing activities, notification and follow-up to members of their eligibility for Medicare, and controls over system access.

At the request of the Finance Committee and the Investment Office, we performed an audit of the BlackRock fixed income trading system. The objectives of the audit were to determine whether trading compliance rules programmed into the system are consistent with investment policy, and whether access privileges are appropriate. Substantially all compliance rules and access privileges are appropriately programmed, and the Investment Office plans to make further improvements to a few compliance rules and separation of duties based on the report's recommendations. The report is currently in draft status and should be issued in final form in December 2005.

### Audit Follow-Up

Consistent with the Audit Resolution Policy and Procedures, the Office of Audit Services is currently working with management to either resolve or develop corrective action plans for the 69 audit issues that are more than one year old. We will report on the status of all audit issues in the quarterly status report for the period ending December 31, 2005.

### Health Plan Audits

We completed three audits of health plan contract compliance during the first quarter. These audits addressed HMO, pharmacy, and long-term care areas. The main issues identified in these audits include improved reporting of data to CalPERS and improved eligibility tracking.

### Financial Statement Audit

The external financial statement auditor, Deloitte and Touche, completed its audit of CalPERS' financial statements as of June 30, 2005, and presented an unqualified opinion at the November 2005 Finance Committee meeting.

Deloitte will present a draft management letter summarizing all findings and recommendations related to the financial statement audit at the February 2006 Finance Committee meeting.

Real Estate Audits

The external real estate auditor completed three audits in the first quarter of Fiscal Year 2005/06. The most frequently reported issues, as in Fiscal Year 2004/05, continue to address insurance requirements, property condition, record keeping, various fee calculations, and competitive bidding.

**V. STRATEGIC PLAN:**

This item is not a specific product of the strategic plan, but is required by the Finance Committee's Audit Resolution Policy and Procedures and the Office of Audit Services Charter.

**VI. RISKS/COST:**

This is an information item and does not result in any risks/costs. Staff is available to answer any questions that the Finance Committee may have.

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Larry Jensen, Chief  
Office of Audit Services

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Peter H. Mixon  
General Counsel